

February 2, 2022

VIA ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket Nos. 4770 & 5127
Update on Block Island Transmission System (“BITS”) Surcharge

Dear Ms. Massaro:

National Grid¹ is submitting this letter to the Public Utilities Commission (“PUC”) to notify the PUC of the status of the Company’s efforts to address the PUC’s concerns articulated at its March 29, 2021 Open Meeting regarding the rate structure for the Block Island Transmission System surcharge (“BITS Surcharge”). As noted in the Company’s April 1, 2021 letter to the PUC, the Company has been working with the Division of Public Utilities and Carriers (“Division”) over the last several months on a proposed solution to the carrying charge formula applied to the BITS Surcharge. In addition, the Company and the Division have engaged in several discussions since the Fall of 2019 to address the Division’s concerns with the incremental costs associated with remediating an exposed portion of the submarine cable connecting Block Island to the mainland located at Crescent Beach on Block Island and the (“Sea2Shore Project”). The Company is pleased to inform the PUC that the Company and the Division have reached a resolution in principle regarding the BITS Surcharge and the Sea2Shore Project costs, which the Company believes is in the best interest of Rhode Island customers and is consistent with Federal Energy Regulatory Commission (“FERC”) precedent.

The Company has committed to taking the following actions and has included additional explanatory detail regarding these commitments for the PUC’s reference, below:

BITS Surcharge:

- The Company agrees to take the necessary steps and to coordinate all necessary filings with FERC under Section 205 of the Federal Power Act (“205 Filings”) to revise the calculation of the Property Tax, Operations and Maintenance (“O&M”) and Administrative and General (“A&G”) costs² included in the BITS Surcharge from an average annual

¹ The Narragansett Electric Company d/b/a National Grid (sometimes referred to as the “Company,” “Narragansett”, or “National Grid”).

² Because the Company does not directly track Administrative and General costs to the Sea2Shore Project, the Company would use a salaries and wage allocator based on actual labor or a fixed percentage allocated to the Sea2Shore Project, consistent with FERC principles.

transmission carrying charge formula to a formula that uses actual costs in the year the rates are charged, with a true-up mechanism.

- The Company will, in coordination with ISO-New England (ISO-NE) and the Block Island Power Company (BIPCO), make any necessary changes to the applicable FERC-jurisdictional local service agreements (“LSAs”), related tariffs, and other agreements that the Company deems necessary to implement the change to the BITS Surcharge. Any such changes must be filed under, and are conditioned upon acceptance by FERC pursuant to, Section 205 of the Federal Power Act.³
- Beginning with calendar year 2021 and until such time as FERC approves, and National Grid implements, a revised tariff reflecting the changes noted above, the Company shall, in any future earnings sharing proceedings before the PUC, recognize all revenue received for the BITS assets under the Integrated Facilities Agreement (“IFA”) for O&M, A&G and property tax in revenues and actual expenses for O&M, A&G, and property taxes in operating expenses. Any excess earnings will be shared with Rhode Island customers in accordance with the terms of the Amended Settlement Agreement, approved by the PUC in Docket No. 4770.
- Amendments to the LSAs, as well as any 205 Filings necessary to implement the changes referenced above, are subject to the agreement of BIPCO and ISO-NE, as co-parties to the applicable LSAs. The Company will make the necessary outreach to BIPCO and ISO-NE to request their agreement to any amendments to the LSAs or 205 Filings for which their agreement or consent is required.
- The Company will use reasonable efforts to submit any required 205 Filings within thirty (30) days following agreement with the Division, ISO-NE and BIPCO on specific tariff or contract revisions.
- In addition to modifying the BITS Surcharge to reduce the rate, the Company will provide National Grid customers and BIPCO with a one-time credit (referred to herein as the “Revenue Credit”) equal to \$12 million. The portion of the \$12 million Revenue Credit allocable to National Grid’s customers will be applied to the Company’s Storm Contingency Fund.⁴

³ In the event the Division approves the sale of Narragansett to PPL Rhode Island Holdings, LLC (“PPL Rhode Island”) in Docket No. D-21-09, the existing tariffs and arrangements between New England Power and Narragansett will remain in place for a period of time following the closing until such time as Narragansett or another PPL affiliate becomes a Participating Transmission Owner by signing the Transmission Operating Agreement with ISO-NE (currently anticipated to occur on or around June/July 2022) and provides service under successors to the applicable LSAs that are expected to incorporate the revised BITS Surcharge provisions

⁴ The allocation of the Revenue Credit to National Grid electric distribution customers and to BIPCO will be based on the most recently calculated Transmission Customer Share Percentage as defined in the LSA.

Sea2Shore Project

- The total project plant-in-service investment to date, plus the incremental remediation costs and installation costs for the reburial of the Sea2Shore cable will not exceed \$144,042,794.00 (“Cost Cap”), and the Company will not be entitled to recover from customers any capital investment in excess of the Cost Cap.
- In addition, the Company will bear the risk of any additional costs in excess of the Cost Cap to complete the reconstruction of the Sea2Shore cable, including the incremental costs incurred as a result of the conduit blockage and any additional costs incurred in the fall of 2021 or Spring of 2022 when the Sea2Shore Project restarts.
- These commitments will bind the Company and any successors.

Additional Information

- **Actual Cost Approach:** The funds collected through the BITS Surcharge are used to defray future maintenance and repairs associated with the transmission cable that connects the Sea2Shore Project to the mainland. While an actual cost approach for O&M, Property Tax, and A&G will shift the risk of future maintenance and repairs of the Sea2Shore cable to customers, the Company believes that such an approach more closely aligns the revenues received through the BITS Surcharge with the anticipated maintenance and repair costs in a given year.
- **True-Up Mechanism:** As of the effective date of FERC acceptance of the revised tariff, the BITS surcharge will be calculated and billed pursuant to the new formula rate using prior year actual costs reported in the most recent FERC Form 1 filing. Amounts billed for the applicable calendar year will be subject to true-up to actual costs in the following year. The net refund or surcharge will be issued as a lump sum on the BITS Surcharge invoice issued in the month after the true-up is calculated.
- **205 Filings:** The Company, in conjunction with ISO-NE and BIPCO, submitted the 205 Filings described above with FERC on January 31, 2022. In the 205 Filings, the parties are requesting that the FERC issue an order on the tariff revisions within the minimum time frame permitted under 16 U.S.C. § 824d (i.e., 60 days) and permit the revised local service agreements to become effective as of January 1, 2022.⁵

⁵ FERC’s regulations require service agreements to be filed not more than 30 days after service under the agreements has commenced. 18 C.F.R. § 35.3(a)(2).

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- **Revenue Credit:** The \$12 million Revenue Credit will be allocated among National Grid customers and BIPCO in accordance with the Transmission Customer Share Percentage as defined in the applicable LSA.
- **Outreach to BIPCO and ISO-NE:** The Company has commenced outreach to BIPCO and ISO-NE to effectuate amendments to the applicable local service agreements, as discussed above. The applicable local service agreements are TSA-NEP-86 which is the local service agreement between Narragansett, ISO-NE and New England Power Company and TSA-NEP-83 which is the local service agreement between BIPCO, ISO-NE and New England Power Company. BIPCO and ISO-NE have each provided their consent to the revisions to the respective local service agreements, to which they are a party.

The Company believes the revisions to the BITS Surcharge, together with the Revenue Credit and Cost Cap, as discussed above, will provide significant financial value to Rhode Island customers and BIPCO.

Thank you for your attention to this correspondence. If you have any questions or concerns related to the aforementioned process, please do not hesitate to contact Jennifer Brooks Hutchinson at 401-784-7288 or Andrew Marcaccio at 401-784-4263.

Very truly yours,



Jennifer Brooks Hutchinson



Andrew S. Marcaccio

Enclosure

cc: Docket 4770 & 5127 Service Lists
Linda George, Division
John Bell, Division
Christy Hetherington, Esq.
Leo Wold, Esq.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Jennifer Brooks Hutchinson, Esq.

February 1, 2022
Date

**National Grid Docket No. 4770 (Rate Application) & Docket No. 4780 (PST)
Combined Service list updated 8/12/2021**

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Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Jennifer Brooks Hutchinson, Esq.

February 1, 2022

Date

**National Grid – 2021 Annual Retail Rate Filing - Docket No. 5127
Service List Updated 2/15/2021**

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